

ATTACHMENT A

Proposed Scope of RPS Issues for 2006 IEPR Status Report

California's RPS program was established to help diversify the state's electricity system and reduce its growing dependence on natural gas by increasing the percentage of renewables in the state's electricity mix to 20 percent by 2010. When the RPS was passed in 2002, California's electricity mix was 10.96 percent renewable. After three years of RPS implementation, however, generation from RPS-eligible resources has not grown faster than generation from other resources. As a result, the percentage of renewables in California in 2005 has not increased, but remained at just under 11 percent. Although IOU contracts for more than 2,000 MW, and as much as 3,800 MW, for new, re-powered, or restarted renewable facilities have been approved by the CPUC, it is not clear when (or what percentage) of these facilities will be able to come on-line by 2010.¹ Only 240 MW have come on-line so far. The state is clearly not on track to meet the RPS goal of 20 percent of retail sales by 2010.

Consequently, the purpose of this workshop is to identify ways to simplify and streamline the RPS structure to facilitate the development of new renewable generation to meet California's RPS. The workshop scope invites participants to explore both regulatory and statutory solutions to meet California's renewable energy goals, including:

- Increasing transparency
- Ensuring that renewable procurement occurs quickly and efficiently
- Addressing transmission and integration issues
- Applying RPS targets consistently to all load-serving entities
- Streamlining accounting for RPS compliance
- Addressing jurisdictional issues and financing

For additional background information, please refer to Attachment B, the consultant report, *Summary of the California Energy Commission's Renewables Portfolio Standard Contractor Reports, and the Status of Renewables Portfolio Standard Contracting and Regulation* (publication number CEC-300-2006-012).

Increasing Transparency

Under current confidentiality constraints, policy makers at the Energy Commission are unable to scrutinize detailed information about investor-owned utilities' RPS solicitations in a public setting, including review of the following: the application of least-cost, best-fit criteria; the development of time-of-delivery factors; the full range of bids considered; and the contracts ultimately forwarded to the CPUC for approval. Under this program structure, it is difficult for policy makers to ensure that public funds are efficiently expended to support the state's RPS goals. To improve the transparency of the RPS process, the Energy Commission seeks public input on the following:

¹ IOUs are negotiating contracts from their 2005 Request for Offers(RFO), and three contracts from the 2005 cycle have been filed with the CPUC. Data on RPS contracts are from www.energy.ca.gov/portfolio/contracts_database.html, updated June, 2006.

1. Ways to make the least-cost, best-fit process more transparent.
2. How to simplify the process used to determine the market price referent (MPR), including how time-of-delivery factors are derived and applied, and ways to ensure that assumptions used are the same as those used in the CPUC's all-source procurement so the two procurement processes are consistent.
3. How best to balance utilities' desire for data confidentiality with policy makers' need for complete bid data in order to appropriately award supplemental energy payments (SEPs).

Ensuring that Renewable Procurement Occurs Quickly and Efficiently

Statewide renewable procurement should be accelerated to reach RPS goals by 2010. CPUC Decision 06-05-039 (May 2006) conditionally approving the IOUs' 2006 procurement plans and solicitations demonstrates some progress toward streamlining the contracting process by directing a more rapid contracting process than has been experienced to date. But still more action is needed.

Investor-owned utility RPS incremental procurement targets currently reflect only the minimum required under the statute (1 percent per year) rather than the amount needed to reach full compliance by 2010, including procuring an adequate margin of safety to compensate for contracts that may not come to fruition. A 2006 consultant report surveying a range of U.S. and European renewable energy procurement practices to date, summarized in Attachment B, indicates that a minimum of 30 percent contract failure should perhaps be expected. To ensure that renewable procurement is sufficient to meet RPS goals on time, the Energy Commission seeks input on the following:

4. Are further steps needed to get RPS solicitations on an annual cycle with pre-established dates for release of RPS solicitations, when bids are due, selection of short list bidders, and approval of contracts?
5. In D.06-05-039, the CPUC allowed IOUs to use their contingency planning to account for contract failure in procuring sufficient energy to achieve 20 percent renewables by 2010. Are further steps needed to trigger additional procurement if contract failure exceeds IOUs' expectations?
6. Recognizing that the CPUC plans to address applying the renewable "rebuttable presumption" consistently to all procurement, the IEPR-RPS mid-course review provides an opportunity to catalyze innovative ideas to be further developed in that process. What suggestions do you have on this topic?

Addressing Transmission and Integration Issues

Transmission upgrades are critical to connect remote sources of renewable generation in the Tehachapi wind and Imperial Valley geothermal resource areas. Recent activities to help address these issues are discussed in the consultant paper and include:

- a. In September 2005, the CPUC opened an investigation (I. 05-09-005) to address barriers to development of transmission infrastructure needed to meet the California RPS targets.
- b. On June 15, 2006 the CPUC issued a decision focused on cost recovery issues and implementation of the “backstop” funding provisions of Public Utilities Code 399.25.
- c. At its June 14, 2006 board meeting, the California Independent System Operator (CA ISO) announced a renewable energy transmission initiative. Among other things, the CA ISO offered new evaluation criteria for investments needed to access renewable resources that are not considered network or gen-tie facilities.
- d. The CA ISO is also assessing the need for transmission facilities at Tehachapi; Imperial Valley; the proposed Lake Elsinore Advanced Pumped Storage project; or a combination of these options and plans to have recommendations to the CA ISO’s Board of Directors in fall 2006.

Utilities are wary of investing in renewable transmission without assurance of cost recovery, which is premised on the renewable generation being built, while renewable projects cannot secure contracts under RPS procurement without knowing whether existing transmission will be there to accommodate them. In addition, the intermittent nature of some renewable resources can have impacts on the reliability and operation of the existing grid. To address these issues, the Energy Commission seeks input on the following:

7. Strategies to address the current CA ISO interconnection queue process, which may be preventing successful renewable generation projects from being constructed.
8. How to modify the current transmission interconnection process so that existing users of transmission, primarily fossil-fueled generators, are not given priority for current transmission capacity while renewable generators, the preferred resources in the state’s loading order policy, are required to upgrade transmission to gain access to the grid.
9. Ways to amend the CA ISO tariff to allow the interconnection of large concentrations of renewable generation resources located within a reasonable distance of the existing CA ISO grid; including a recently proposed CA ISO request for a declaratory order on renewable transmission from the Federal Energy Regulatory Commission.
10. How to ensure that transmission cost estimates in the investor-owned utilities’ Transmission Ranking Cost Reports used to evaluate RPS bids are appropriate and do not impose new barriers to renewable development.

11. Focusing state research and development efforts on issues surrounding integrating large amounts of intermittent renewable resources into the state's electric grid without adversely affecting reliability or system operations.

Apply RPS Targets Consistently to all Load-Serving Entities

While Electric Service Providers (ESPs) and Community Choice Aggregators (CCAs) have the same RPS obligations as investor-owned utilities, there are only very broad rules in place for their participation and no rules in place to set RPS targets, eligibility requirements, and compliance dates. However, the CPUC plans to issue a draft decision on RPS implementation for ESP, CCA, and small and multijurisdictional utilities within the next two months.

In addition, because publicly owned utilities provide 25-30 percent of the state's electricity, applying the accelerated and increased RPS targets to these entities is crucial for meeting the state's goals for renewable energy. To ensure that the state meets its RPS goals, the Energy Commission seeks input on the following:

12. Regarding ESPs and CCAs, should the MPR and SEP processes be applied, and, if so, how should these be applied for contract terms of less than 10 years?
13. What further actions are needed to ensure that publicly owned utilities, ESPs, and CCAs meet the same targets, timelines, and eligibility standards as IOUs, and what type of exemption process is needed to avoid overly burdensome requirements for smaller entities?
14. How to implement the *2005 Energy Report* recommendation to explore limited use of renewable energy certificates for RPS compliance to facilitate uniform participation by all load serving entities.

Streamlining Accounting for RPS Compliance

RPS targets are divided into baseline, annual procurement, and incremental procurement. This separation complicates tracking and verification of renewable generation for compliance purposes. In addition, the requirement to certify incremental generation from geothermal facilities adds complexity.

Further, although generation from renewable distributed generation facilities is eligible for the RPS, there are no rules in place to determine how that generation will be counted toward RPS compliance. In Decision 05-05-011 (May 5, 2005), the CPUC ruled that renewable energy certificates for the electricity from renewable distributed generation systems belong to the owner of the system. However, it is not yet clear how generation from renewable distributed generation facilities will be counted toward RPS compliance because issues related to public subsidies and measurement are unresolved.

To simplify verification of RPS compliance, the Energy Commission seeks input on the following:

15. The desirability of establishing a single RPS target reflecting the total amount of renewable generation needed each year to meet the 2010 RPS goals.
16. Whether statutory requirements that generation from specific geothermal, small hydro, and municipal solid waste combustion facilities apply only to the baseline are still necessary, and whether those restrictions would hamper movement to a single RPS target.
17. Whether statutory requirements applying to incremental geothermal should be removed.
18. How generation from renewable distributed generation facilities is counted toward RPS compliance, including resolving issues related to public subsidies and measurement (CPUC Decision 05-05-11, May 5, 2005).

Jurisdictional Issues

Facility owners awarded SEPs are subject to California's prevailing wage law with respect to certain types of work performed on the facility. It is unclear, however, how this requirement is to be applied to facilities located outside of California. In addition, new or repowered biomass facilities seeking SEPs must certify that wood waste from timber operations used as fuel meets specific criteria, including being harvested under an approved timber harvest plan in accordance with California Public Resources Code. Applying this restriction to out-of-state biomass facilities or facilities that use wood waste from timber operations on federal or tribal lands is problematic. To better understand these jurisdictional issues, the Energy Commission seeks input on the following:

19. How California should apply prevailing wage requirements to out-of-state facilities wishing to receive SEPs.
20. How California should apply requirements for biomass fuel from timber operations to out-of-state biomass facilities or in-state facilities that obtain fuel from tribal or national forest land that also wish to receive SEPs.

Financing

Several parties have raised concerns that because of State of California administrative processes, there is no specific guarantee that SEPs will be available for the full term of contracts that are above the MPR. Projects with contracts above the MPR that require SEPs are therefore hampered in their ability to secure financing, since lenders need assurance of a long-term commitment to pay. This issue is currently being taken up by the Legislature, but in the absence of legislative action the Energy Commission seeks input on the following:

21. Potential alternatives to a third-party escrow account that would provide the needed assurance to lenders in order for projects to receive financing.